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INTERNATIONAL INSTITUTE OF AGRICULTURE

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MISCELLANEOUS PUBLICATIONS

Volume 1


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# THE INTERNATIONAL INSTITUTE OF AGRICULTURE AND COOPERATIVE BANKING

BY

DAVID LUBIN

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Following in importance right next to the crop-reporting service, is the service which the International Institute of Agriculture is to render the world in developing agricultural cooperative banking.

While the official Government crop-reporting system of the Institute is to be a factor in determining the world's price of the farmer's product, agricultural cooperative banking is to enable him to exercise control over his labors in accordance with the trend of modern economic developments. The one is complementary to the other.

The importance of agricultural cooperative banking is thus significantly stated on p. 87 of the "Report of the Recess Committee": "We allude to cooperative credit as illustrated in the 'Peoples' Banks' of the Raiffeisen and other patters of the Continent—a modern discovery which has been likened, as a factor in production, to the discovery of steam."

Some idea of the volume of business done by these banks may be had from the following figures, taken from p. 63 of the *Annali del Credito e della Previdenza*, 1906, published by the Italian Ministry of Agriculture, Industry and Commerce, which show the amount of business transacted for a series of years by the German Cooperative rural banks.

## *Volume of business:*

1892	1896	1898	1901	1902	1903
Mks.	Mks.	Mks.	Mkš.	Mks.	Mks.
87,748,826	245,847,964	545,468,184	1,059,842,240	1,367,807,356	1,537,219,436

The rise and development of agricultural cooperative banking in Germany may be taken as a sample of what has been done in this field in the other countries of Europe.

Significant as the development of agricultural credit cooperation in Europe is to-day, it may, nevertheless, be said that is still in its infancy if compared with the development which it is capable of attaining.

The line along which this development might take place may be indicated by the proposal of a new trend which could be given to the agricultural cooperative banking system, a trend which would be likely to accelerate their growth in geometric ratio. The trend which I refer to is in the direction of freely obtaining for the farmer access to all the capital he requires for placing all his business transactions on an absolutely cash basis, and this at the world's lowest rate of interest.

Obviously, this end may be attained through the medium of the proper security. The volume and character of the security is the factor which determines the condition on which capital may be obtained. Given the security in sufficient volume, and of the proper character, and it will attract capital coming direct from the principal sources, consequently at the lowest rate and on the best terms. It is only departure from this mode of procedure which makes it difficult to obtain capital, hence, more uncertain, more restricted, and more costly.

No one will dispute the fact of the presence of capital. Capital is to be had, and in abundance. It is only a question of the security offered, and of its form and character. How, then, can the form and character of the security offered by the farmer be put in such shape as to make it acceptable to the principal sources of capital?

This may only be done by the cooperative syndicating of the securities which the farmers can offer. The security of one of these, however good, is too insignificant a factor to be dealt with: it is only when a large number of these farmers join into one group, into one corporation, and centralise their combined cooperative securities into one general security, into one negotiable bond, that the conditions above indicated will be met.

Given these syndicated cooperative rural groups, and they would soon attract capital, capital from its principal sources, and between each set of these groups this capital could establish one of its banks.

These banks could then honor the drafts of the individual members whenever said drafts were certified by the officers of the rural cooperative syndicate, and perform such other banking duties as the exigencies of their powers in the premises would permit, leaving all other matters of the syndicate to its members and officers.

Under the above system it would no longer be necessary for the banker to consider as an asset the character of the individual members, or of the rural cooperative syndicate as a whole; he would only look to the value of the security offered by that syndicate. The moral character of the individual would, however, be considered by the rural cooperative syndicate, in laying out the line of credit for each of its members.

The plan above outlined differs from the present Raiffeisen and Schulze-Delitsch systems mainly in the following particulars: 1. that it would obtain its capital from the principal sources, and at the lowest rate of



interest; 2. that it would differentiate functions, giving the technical labor of banking to the banker, and leaving to the rural cooperative syndicate its purely syndicate work.

At the present time credit is mainly granted to the individual members of cooperative credit associations for certain specified purposes, such as the purchase of agricultural implements or for some special improvement. For all other needs of money the farmer must either have recourse to cash on hand, to be exhausted as time goes on, and replenished only when the sale of his crop will yield him a new fund of money, or, if he have no such cash in hand, he must pay for his labor and purchase his necessities on credit. His banker, in reality, is his local store-keeper. In this the farmer reverses the usual order of business, which is, to buy at the lowest and sell at the highest price; he, however, sells his crop at the lowest price—the world's price.—and purchases his money, on the retail credit system, at the highest price.

A parallel example to this system may be given in the financial methods in vogue in the United States some thirty years ago. At that time the credit system prevailed, and this gave rise to the "Jobber" in merchandize. The Jobber controlled, on the one hand, the output of the factory, and, on the other, the supply of retailer. As a result, American manufactures were then the poorest, and the retail price the highest in the world. Paper soled shoes and shoddy clothes were then the rule, which were sold at prices higher than should have prevailed had the goods been sound and normal. Under such a system it would have been manifestly impossible for the United States to have made the splendid progress she has since made. There came a change; a significant change; and it was brought about in this wise. In the early seventies there appeared upon the scene a new element in Commerce, the Department Store. These department Stores entered the field on a cash basis. Buying for cash they had no use for the Jobber, but placed their orders direct with the manufacturer, obtaining for their cash payments goods of far superior quality, and at a much lower price than they could have obtained from the Jobber, and, as a result, they easily undersold the merchants buying on the credit system.

But this was not to be a one-sided game by any means. The Jobbers girded up their loins, and resolved to fight the Department Store Adventurer. The fight of St. Michael and the Devil, of St. George and the Dragon, of Siegfried with his sword, was to be fought over again. And so the fight proceeded, the fight of the jobber, and the thunders of the terrible boycott were hurled at the defenceless head of the Cash Department-Store man. Manufacturers were to be condemned to the Bankruptcy Court if they but dared to sell him goods, and every other means, fair and unfair, within the power of the jobber was employed against the presumptuous Department-Store cash-buyer.

For a time the victory seemed to incline towards the side of the Jobber when, with one ungainly, mighty lurch, the ungodly Jobber turned turtle-back, and disappeared from the commercial field in the United States, let us hope, for ever. The Department Store prevailed, and its system of eliminating the jobber and buying for cash, was soon followed by others of the retail merchants, with what results is evident. In the Broadway District of New York some 30 years ago, there were, from Vesey Street, South, to Houston Street, North, an army of Jobbers. There have now dwindled down to a mere handful; and the one great jobbing-house which still survives has been forced to bolster up its position by becoming the supplying house for a large number of its syndicated retail stores.

And what took place in New York City is but a sample of what took place in the Commerce and Industry of other sections of the United States. Under the cash system the United States, instead of producing the poorest goods at the highest price, is now producing the best goods at the lowest prices in the world. In her exports the United States is not alone in evidence in sewing machines, agricultural implements, and machinery, but also in shoes, which are now sold in almost every market centre of the European Continent, and what her merchants can do in shoes they can do in hats, in garments, in blankets, in hardware, and in other lines of merchandize. It is but a question of the willingness of the American merchants to push out and capture and hold the markets for American manufactures the world over.

And now let us study another example of the credit system as it worked, and as it is still, unfortunately, working in America. I allude to the example offered by the great industry of cotton producing in the Southern States of the Union.

Under slavery, the cotton planters employed certain middlemen for supplying them with money during planting and harvesting, to whom was also entrusted the task of marketing the cotton. These men were designated "factors."

With the disappearance of slavery, at the end of the Civil War, when the planters returned from the battle-field impoverished, there was no room for the former "factor." His place has since been taken by the retail store keeper, who, during planting and harvesting, supplies the cotton-grower with any cash or merchandize he needs, receiving in return for such services a lien on the planter's cotton crop.

That this system is uneconomical and vicious is only too plainly evident. No matter how high the ruling price of cotton may be, it scarcely affects the cotton-grower beneficially; the benefits of the higher returns do not seem to reach him; they are apparently dissipated in unaccountable directions. Failing to discern the real cause of his discomfort, the cotton-grower vehemently, though unwisely, attributes it to the

excessively high charges of the store-keeper, overlooking the fact that the store keeper of the Southern States earns less, through this vicious credit system than do those of the North, East or West, where there are very few, if any store-keepers who sell on six, eight, ten, or twelve months credit. The Southern store-keeper, it is true, supplies the cotton-grower with poorer goods at a higher price than they can be obtained in the other sections of the United States, but the Southern store-keeper, is nevertheless, like the cotton-grower, a victim of this wasteful and vicious system. Here, in fact, is an illustration in the conditions prevailing in the Southern States in our day, of the conditions previously described in this paper as existing some thirty years ago throughout the Union. In other words, the Southern Cotton Belt is thirty years behind the rest of the United States in economic development.

But does this situation concern only the cotton-growers of the United States? By no means! It concerns the cotton consumers in every station of life and in every country of the world. That it is one of the perturbing causes in the great industry of cotton manufacturing is evident. The International Federation of Master Cotton Spinners' and Manufacturers' Associations devotes much of its energies in attempts to find a remedy. Many suggestions are offered as a means of overcoming the difficulty. There are, for instance, plans for encouraging, by subsidies, cotton-growing in other parts of the world; then it is suggested that cotton be bought and stored, for the purpose of lowering its price. Obviously, however, all these plans are futile. There is but one practical plan; the removal of the vicious credit system, from the Southern section of the United States, and the putting of that section of the Union on a strictly cash basis. This alone will give the world all the cotton it requires, and at equitable prices.

And this result may be accomplished by the plan outlined in this paper, by the formation of cooperative groups, among the cotton-growers, and by syndicating their individual assets into one collective negotiable Bond. The formation of such rural groups, offering their collective Bond as security, would soon attract the serious attention of capital direct from its principal sources. Instead of the traditional "six cents cash, twelve cents credit," it would mean: "money from London at 3 or 4 % interest a year!" Instead of "six cents cash, twelve cents credit," it would mean "better quality, and at four cents, for cash!" The cotton grower could then afford to sell his cotton for less than what he now receives, and make a greater net earning than he has ever made before.

And right here is the opportunity for the owner of large Capital. The owner of large Capital has many sins attributed to him, some justly, some unjustly, but once let him place his capital, without any intermediate intervention, into the hands of the Farmer, direct, and place it there at the lowest ruling rates, and all his sins will be forgiven him,



for he will then be a benefactor. Let him but brush aside the net-work of money-jobbers, and himself, the principal disposer of capital, place his capital in the most direct manner, for use by the primary sources of industry, and at the lowest rate of interest, and a strange thing will happen. The curses with which he is now assailed, will be turned into blessings.

All the evil of which the merchandize jobber was guilty is more than matched by the money-jobber. Tracing it from its principal source downwards, money, that is originally let out at three percent, ultimately costs, through the "jobber" in merchandise and the "jobber" in money, 100 % to the producer, who buys his money on the credit system of the store-keeper. It is this vicious system which, in its fatal workings, curtails, absorbs, and dissipates; it is the leaven which makes for unrest and instability. Let but Capital go unhampered to the first source that needs it; to the farmer direct; let it do this at its lowest wholesale rate, and it will, by that act, work a most beneficent evolution in Civilisation.

But how would it be possible for Capital, at its wholesale rate, to be placed within the reach of the retail Unit, the farmer? That way, as been pointed out in this paper, is by the formation of cooperative groups among the farmers, and by the syndicating of their individual assets into one collective negotiable Bond. The formation of such rural groups, and the offering of such bonds as security, would soon attract the serious attention of capital, direct from its principal and its first sources.

The Capitalists, the world over, and the farmers the world over, owe it as a duty to themselves, and as a duty to the best interests of their countries, to bring this about.

That the plan here set forth is not new or startling is evidenced by the fact that, in principle, it is already in operation, though in different fields. Syndicated commercial companies, known as Trusts, are now established institutions the world over. They are mainly absent in the industry of farming; and this is to be regretted, for their absence in this industry leaves the farmer defenceless and almost outside the pale of modern economic development.

The proposal here outlined is framed in a form suitable to its pioneering stage of development. While it postulates cooperation primarily, it insists upon a differentiation; a differentiation which shall transmute a phase of its cooperative activities into that of the activities of the Corporation, or, if you please, into that of the Trust, but of a Trust with limited functions. Its single purpose will be the syndicating of the assets of the individual members into one grand total asset, and the rendering of the same into one negotiable bond. All this, so as to procure the necessary capital at the lowest rate, so as to enable each of the members of the corporation to conduct his business on a cash basis. But in all other matters affecting their interests, each of the members is to retain the same freedom of action he has to-day.

It is obviously in the interest of the State that the farmer be placed on some such basis as is here outlined; for unless this means be employed to check-mate the effects upon the farmer of the action of the Trusts in his own country and the effects upon him of the Trusts in foreign countries, it must inevitably follow that the primary industry agriculture, will be shorn of its strength, and thus be deprived of its efficacy as a conservator of the State.

The billion dollar Trust is already here, and here to stay, so the time is past when what is here advocated can be dismissed with the word "novelty." This is not a question of novelties or choice; it is a question of meeting a new world-condition; and the sooner it is met the better it will be, not alone for the individuals composing the cooperative syndicate, but for the welfare of the State.

Rome, Italy, Dec. 10, 1909.

DAVID LUBIN

Delegate of the United States  
International Institute of Agriculture.





